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Circular Letter

TO: **STATE AGENCIES, AGRICULTURAL DISTRICTS, PUBLIC AGENCIES, STATE COLLEGES & UNIVERSITIES, COUNTY SUPERINTENDENTS OF SCHOOLS AND INDIVIDUAL SCHOOL DISTRICTS**

SUBJECT: **COMPENSATION LIMITS [IRC SECTION 401(a)(17)]**

California Public Employees' Retirement System (CalPERS) Circular Letter 200-075-01 dated August 29, 2001, provided employers with an overview of the new federal pension plan compensation limits established by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 (H.R. 1836, Statutes of 2001). The purpose of this circular letter is to update you on California's conformity with the federal limits on compensation and outline the procedures for reporting a member who has reached the limit.

The compensation limit for the 2003 calendar year is $200,000. **The compensation limit is only applicable to persons who first became members or participants of CalPERS on or after July 1, 1996**. For those members who are subject to the limit, their final compensation will be capped at the limit in effect for each 12 consecutive-month period that is used to calculate their allowance if they were to retire. Therefore, the member should not make contributions on earnings that exceed the $200,000 limit within this calendar year. The earnings that are mentioned are those earnings that are reportable to CalPERS, which exclude earnings for overtime, automobile allowances, lump sum payouts, etc. The compensation limits do not limit the salary an employer can pay an employee who is a member of CalPERS.

If you have such an employee whose compensation reaches the limit, the following should be done:

- Send a notice to the following address indicating the member's name, Social Security number and period in which the employee's compensation first exceeded the limit:

California Public Employees' Retirement System
Attn: Payroll Manager
P.O. Box 942709
Sacramento, CA 94229-2709

Continue reporting Pay Code, Pay Rate, Member Earnings and a Contribution Code (01 or 11), but no member contributions for the periods that remain in the calendar year. This allows the employee to continue earning service credit without contributing contributions on earnings that exceed the limit. While the law limits employee contributions, employer contributions should still be paid on the earnings that are reported.

- Once the calendar year is over, resume reporting contributions for your employee and begin the monitoring for the new calendar year.

- If an employee has already reached the limit and the above has not been done, please use a CalPERS Contribution Code 02 or 12 to make a prior period contribution adjustment and reverse contributions for each period that was reported to CalPERS on earnings that exceeded $200,000. Federal law does not allow CalPERS to refund over-reported contributions to an active member of the system. The employer must report these adjustments and refund the money to the employees themselves.

At this time, employer monitoring of their employees' compensation is the only means CalPERS has to determine if limits are exceeded. The new CalPERS Contribution Reporting System scheduled for implementation in 2004 will be able to automatically monitor employee compensation and identify those that exceed the limit. If you have any questions regarding the limits, please contact the Actuarial & Employer Services Division at (916) 326-3420.

Kenneth W Marzion

Kenneth W. Marzion, Chief
Actuarial and Employer Services Division